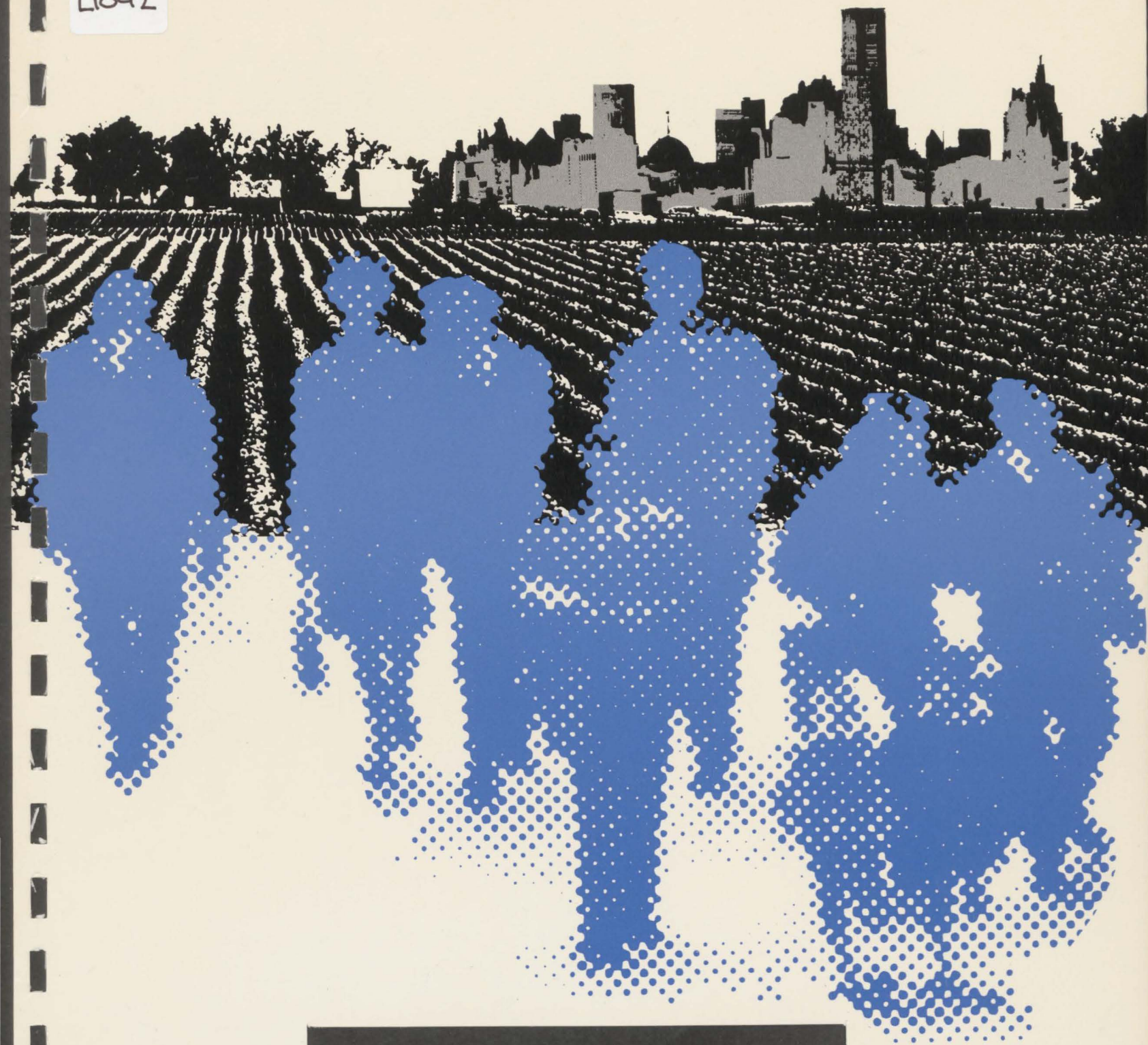


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*Center for Urban and Regional Affairs*

A STUDY OF LAND SALES BY GOVERNMENT  
AND INSURANCE LENDERS IN SEVEN  
SOUTHEASTERN MINNESOTA COUNTIES

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with Thora Cartlidge

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## PREFACE

The Center for Urban and Regional Affairs (CURA) has been involved in many research efforts during the last twenty years related to the changing economy and population base of Minnesota and the Upper Midwest. A natural outgrowth of that work has been the current interest in the changing agricultural base of the region, particularly as it relates to the form and function of the region's trade centers. Important in this is the growing concern about the impact of current agricultural practices on the environment and a resultant growing interest in potential adjustments back to a more "sustainable" form of agriculture which could have substantial impact on local economies.

Similar concerns about change in farmland ownership, operational control and management have led to other studies by CURA done in cooperation with the Land Stewardship Project, with partial funding from the Ford Foundation through the Aspen Institute.

The growing concern about the environment, relative to agricultural activity, led CURA into a number of studies dealing with issues of farm operations, farm owner and operator attitudes about soil and water quality, and use of conservation-oriented practices in southeastern Minnesota. One project, a study of the Duscree Creek watershed in Fillmore County, Minnesota, led to the production of an award winning video entitled "Dilemma on the Duscree," which concentrated on framing the issue of the farmer caught between the economic need to use chemicals and commercial fertilizers and his growing concern about environmental degradation.

This report is the first from a family of Ford Foundation funded projects (through the Aspen Institute's Rural Economic Policy Program) carried out at

CURA during 1989 and early 1990. The current projects are: 1) Disposal of Repossessed Farmland, the Southeastern Minnesota Experience; 2) 1989 Update of Insurance Company Ownership of Farmland in the U.S.; 3) The Changing Roles and Functions of Trade Centers in Minnesota, Wisconsin, Iowa, South Dakota, North Dakota, and Montana; and 4) Video Production of Sequel to "Dilemma on the Duschee."

This report of the disposal of repossessed farmland in seven southeastern Minnesota counties is a direct outgrowth of the earlier work done at CURA which identified land repossessed by insurance companies and the Federal Credit System in the region. The report summarizes what is known about the impact of foreclosure on land tenure patterns and land use.

Major funding for the project came from the Ford Foundation with a matching grant from CURA.

Thomas L. Anding  
Project Director  
Associate Director, CURA

## EXECUTIVE SUMMARY

This study examines the sale of repossessed farmland by government and insurance company lenders in the seven counties of Fillmore, Goodhue, Houston, Mower, Olmsted, Wabasha, and Winona, in southeastern Minnesota. The goal was to establish whether new farmland ownership patterns are emerging in the region as a result of foreclosures. Issues examined were how foreclosures affect land tenure patterns, land use, and rural communities. Of particular interest were differences in the sales of government and insurance company lenders.

A total of 539 sales by insurance company and government lenders between 1983 and mid-1989 were identified. Both county and state records were used. These data, along with data from a survey questionnaire distributed to the buyers (271 questionnaires were completed), formed the basis for analysis.

The study results indicate that sales activity by government and insurance company lenders is increasing in the region. The typical buyer was a local farm operator who intended to retain ownership of the property and who owned more and rented less acreage after the purchase than before. Most buyers were working their land as a family farm and intended to keep the land in crop production. A majority of buyers knew the person who owned the land prior to its repossession, and many bought back land that had been in their family.

The sales were typical of overall farmland sales in the region, but some differences in sales patterns emerged between insurance company and government lenders. Land sales by insurance lenders commanded a higher price per acre and reflected a higher ratio of selling price to estimated market value than government lender sales. The insurance lenders tended to sell larger parcels



than government lenders and to hold their land longer than government lenders. Government lenders sold more of their properties on contract for deed and at lower interest rates than insurance company lenders, who more often made sales through a mortgage.

## INTRODUCTION

The downturn in the farm economy during the 1980s precipitated farm foreclosures across the United States and has given rise to questions about how these foreclosures will affect land tenure patterns, land use, and rural communities in the long term. Institutional lenders have been, and continue to be, the dominant source of agricultural loans. The major institutional lenders, including the Farm Credit System (FCS), commercial banks, life insurance companies, and the Farmers Home Administration, held 77.9 percent of the \$76.7 billion in non-household real estate debt owed by the U.S. farm sector at the end of 1988. As conditions in the farm economy deteriorated, these lenders also became the major holders of repossessed farmland. Holdings in terms of acreage peaked at the end of 1987 at 9 million acres and in terms of value at \$3.8 billion by mid-1987 (Stam, Gajewski, and Koenig 1989).

In Minnesota, government agencies and private insurance companies are the main institutional lenders that acquired substantial farmland inventories through foreclosure. The FCS is by far the dominant government land holder. Insurance companies reported holding 120,234 acres of forfeited farmland in Minnesota in calendar year 1988, and the FCS reported holding 113,212 acres in the state in 1988 (Minnesota Department of Agriculture 1989). Their combined 1988 holdings represented approximately 0.9 percent of the total farm acreage in the state<sup>1</sup> (U.S. Department of Commerce 1989).

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<sup>1</sup> This figure has been calculated using the Bureau of the Census' estimation that there were 26,573,819 acres of farmland in Minnesota in 1987 (U.S. Bureau of the Census 1989).

Institutional, legal, and economic factors all suggest that these lenders will not retain their large farmland holdings indefinitely.<sup>2</sup> Across the country, the FCS has generally tried to liquidate its land inventory relatively rapidly, while life insurance companies, as a group, have been more content to hold the properties, waiting for land prices to increase, usually leasing the farmland in their inventories. As a result, the life insurance companies have become relatively more important as holders of acquired property while the FCS holdings have become less important. The total acquired farmland held by the FCS has fallen from a high of 2.7 million acres in mid-1987 to 1.4 million acres in mid-1988. Life insurance companies have increased their total holdings over the same period, from 2.4 million acres to 4.1 million acres (Stam, Gajewski, and Koenig 1989).

Agricultural lenders have come under the increasing scrutiny of rural advocacy groups within the last decade about their farmland management policies, particularly those policies regarding the resale of foreclosed farmland. Whether the land is being sold to "outsiders" or local operators, whether the former owner is given the opportunity to lease back the land, and what typifies the buyer's tenure and land use after resale, are some of the issues associated with resale that may have important effects on farming patterns and rural communities.

This report summarizes findings about farmland sales by government and insurance company lenders in seven southeastern Minnesota counties from 1983

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<sup>2</sup> For example, Minnesota law requires that corporate, federal, and state lenders dispose of repossessed farmland within ten years of acquiring title to the land if that title was acquired before May 1, 1988. For land acquired on or after May 1, 1988, the time limit is five years, unless the land is being leased to its former owner, in which case the lender has ten years in which to resell the property (Minnesota Annotated Statutes, sec. 500.24(3)(i)).

to the present (Appendix A). The goal of the study was to identify and characterize sales in these counties in order to provide a foundation for assessing the potential impacts of resales on land tenure, land use, and rural communities. The important questions that were addressed in the study concerned who typically has purchased the land, how it is being used, and whether there is any evident change in the pattern of farm operation. Of particular interest were differences between government and insurance company sales.

## OVERVIEW OF STUDY AREA

According to a profile of Minnesota's agriculture in 1987, approximately 82 percent of Minnesota farms were less than 500 acres. Eighty-eight percent of the farms were organized as family farms or farms run by individuals. More than one-half of the operators were full owners, and less than 15 percent were tenants. More than two-thirds reported farming as their principal occupation. Figures on land use indicated that 82 percent of total farm acres were in crops, reflecting the predominance of tillable acreage over pasture, woods, or wetland (U.S. Bureau of the Census 1989).

Additional data from the agriculture census point to a number of changes in Minnesota's farms that are widely regarded as trends. Between 1982 and 1987:

- the rate of decline in the number of Minnesota farms increased, with the number of farms decreasing by 10 percent over this time period;
- farm size continued to increase, as did the proportion of farm acreage in cropland;
- the proportion of Minnesota farmers with off-farm jobs increased; and
- the average age of Minnesota farmers increased, reversing the trend of the previous thirteen years toward younger farmers.

(Minnesota State Planning Agency 1989)

The seven-county study area experienced most of these same changes, though not necessarily to the same extent as other parts of the state. The seven counties are predominantly rural in composition, with approximately 79 percent of the land area in farms. The average farm size in the study area was 254 acres in 1987, which is smaller than the Minnesota average of 312 acres. The majority of farm operators report farming as their primary occupation; and the majority of farms had average sales of over \$10,000, a standard criterion used to distinguish between working and "hobby" farms (Tables 1 & 2).

There is some variation among the seven counties. Olmsted County, for instance, has the lowest average farm size, the largest percentage of farms with sales under \$10,000, and the lowest percentage of farm operators whose principal occupation is farming, probably reflecting the influence of the metropolitan Rochester area. However, overall the seven counties represent a relatively homogeneous study area.

Table 1. CHARACTERISTICS OF FARMS IN SEVEN-COUNTY AREA, 1987

| County                                 | Farm Acreage<br>as a Percent of<br>Total Land Area | Mean Farm Size<br>(in acres) | Percent of Farms<br>with Annual<br>Sales < \$10,000 |
|--|--|------------------------------|---|
| Fillmore                               | 81.8   | 266                          | 25.5  |
| Goodhue                                | 79.8   | 231                          | 30.8  |
| Houston                                | 79.0   | 266                          | 25.7  |
| Mower                                  | 84.8   | 288                          | 19.3  |
| Olmsted                                | 76.1   | 220                          | 35.9  |
| Wabasha                                | 74.4   | 247                          | 24.8  |
| Winona                                 | 76.9   | 264                          | 27.7  |
| Weighted mean for<br>seven-county area | 79.3   | 254                          | 27.4  |

Source: 1987 Census of Agriculture.

Table 2. CHARACTERISTICS OF FARM OPERATORS IN SEVEN-COUNTY AREA, 1987

| County                                 | Percent of Operators<br>Whose Principal<br>Occupation is Farming | Percent of Operators Work-<br>ing 200+ Days off of Farm |
|--|--|---|
| Fillmore                               | 72.4   | 22.4  |
| Goodhue                                | 62.2   | 32.1  |
| Houston                                | 70.9   | 23.9  |
| Mower                                  | 71.9   | 24.8  |
| Olmsted                                | 55.4   | 38.1  |
| Wabasha                                | 72.1   | 22.8  |
| Winona                                 | 74.4   | 21.6  |
| Weighted mean for<br>seven-county area | 68.0   | 23.0  |

Source: 1987 Census of Agriculture.

The number of Minnesota farms has fallen almost continuously since 1935, and has declined by 50 percent since 1950. Rates of decline in the number of farms were as high as 15 percent between 1982 and 1987 in some southern and western Minnesota counties. This trend has been accompanied by an increase in the size of the remaining farms. The size of the average farm in Minnesota increased from 294 acres in 1982 to 312 acres in 1987. The seven counties in this study were among those exhibiting the greatest stability in terms of mean farm size, number of farms, and acreage in farmland (Minnesota State Planning Agency 1989) (Table 3).

Table 3. TRENDS IN SEVEN-COUNTY AREA, 1982-87

| County  | Change in<br>Number of Farms<br>(%) | Change<br>in Farm Acreage<br>(%) | Change in<br>Mean Farm Size<br>(%) |
|---|-------------------------------------|----------------------------------|------------------------------------|
| Fillmore                                      | -9.2                                | -7.5                             | 1.9                                |
| Goodhue                                       | -8.4                                | -4.3                             | 4.5                                |
| Houston                                       | -4.9                                | -5.3                             | 4.7                                |
| Mower   | -9.2                                | -5.1                             | 4.7                                |
| Olmsted                                       | -5.6                                | -3.5                             | 1.9                                |
| Wabasha                                       | -4.2                                | -4.0                             | 0.0                                |
| Winona  | -2.1                                | -1.1                             | 0.8                                |
| Weighted mean change<br>for seven-county area | -6.6                                | -4.1                             | 2.8                                |

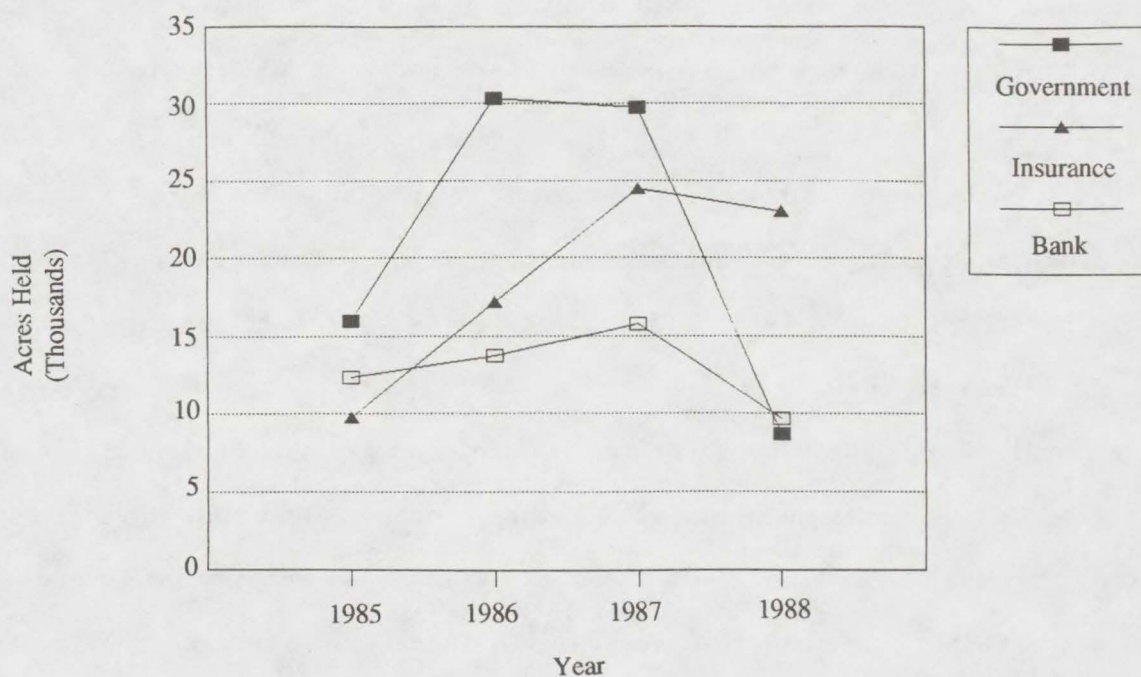
Source: 1987 Census of Agriculture.

As of calendar year 1985, institutional lenders were reporting sizable holdings of repossessed farmland in the seven-county study area.<sup>3</sup> Between 1985 and 1987, government, insurance company, and bank lenders all reported increasing or relatively steady land inventories. However, government and

<sup>3</sup> Minnesota law requires that corporate, government, and foreign entities report annually to the Family Farm Security Bureau of the state Department of Agriculture on any farmland acreage that they own or rent (Minnesota Annotated Statutes, sec. 500.24(4)).

bank lenders reported substantially reduced holdings for calendar year 1988. In fact, government holdings in the seven counties decreased by over 20,000 acres. Insurance companies, on the other hand, reported a relatively small decrease in their holdings (Figure 1).

Figure 1. HOLDINGS OF REPOSSESSED FARMLAND IN MINNESOTA,  
BY TYPE OF LENDER 1985-1988





## METHODOLOGY

### COUNTY AND STATE DATA SOURCES

Farmland sales by government and insurance company lenders were identified by searching Certificates of Real Estate Value (CRVs).<sup>4</sup> Goodhue County was studied as a pilot between the autumn of 1988 and the spring of 1989. The CRV files of sales from 1983 to 1988 were reviewed, and forty-six sales by government and insurance company lenders were identified. The acreage, terms, and estimated market value of the properties sold were obtained from the CRVs, as were the buyers' names and addresses. Assessor's field cards were consulted in an attempt to obtain information missing from CRVs.

Using both county and state CRV files, government and insurance company sales in the remaining six counties were identified. This data collection was done in June and July of 1989, and the 1989 files were examined in addition to those from 1983 to 1988.

A total of 539 sales by insurance company and government lenders were identified in the seven counties of Fillmore, Goodhue, Houston, Mower, Olmsted, Wabasha, and Winona. Of these 539 sales, 443 were by government lenders and 96 were by insurance companies. These sales totaled 83,395 acres, of which 65,107 acres were sold by the government and 18,288 acres by insurance companies. Thus, sales by government lenders averaged 147 acres, while sales by insurance companies averaged 191 acres.

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<sup>4</sup> Minnesota law requires that CRVs, which include information about the property and the terms of the sale, be filed at the county level for all land sales. The Minnesota Department of Revenue uses the CRVs in conducting its "Sales Ratio Study," designed to equalize property tax burdens across jurisdictions (Appendix B).

## THE SURVEY

A survey questionnaire was developed and pre-tested in the Goodhue County pilot study (Appendix C). The questionnaire was mailed to buyers and was designed to obtain data about the buyer's:

- ownership and rental of farmland
- farming practices
- reasons for purchasing the property
- relationship to the former owner of the property.

Some refinements of the survey were made after the pre-test; but most questions remained unchanged, and the responses of Goodhue County buyers have been analyzed with those of respondents from other counties.

A total of 445 surveys were sent, 375 of which went to buyers of government land and 70 to buyers of insurance company land. The 94 sales for which no survey was sent either involved property in multiple counties or buyers who were surveyed on other purchases. The initial mailing was followed by a reminder postcard one week after the survey mailing. Three weeks after the first mailing, a duplicate survey was sent to those individuals from whom a completed survey had not yet been received.

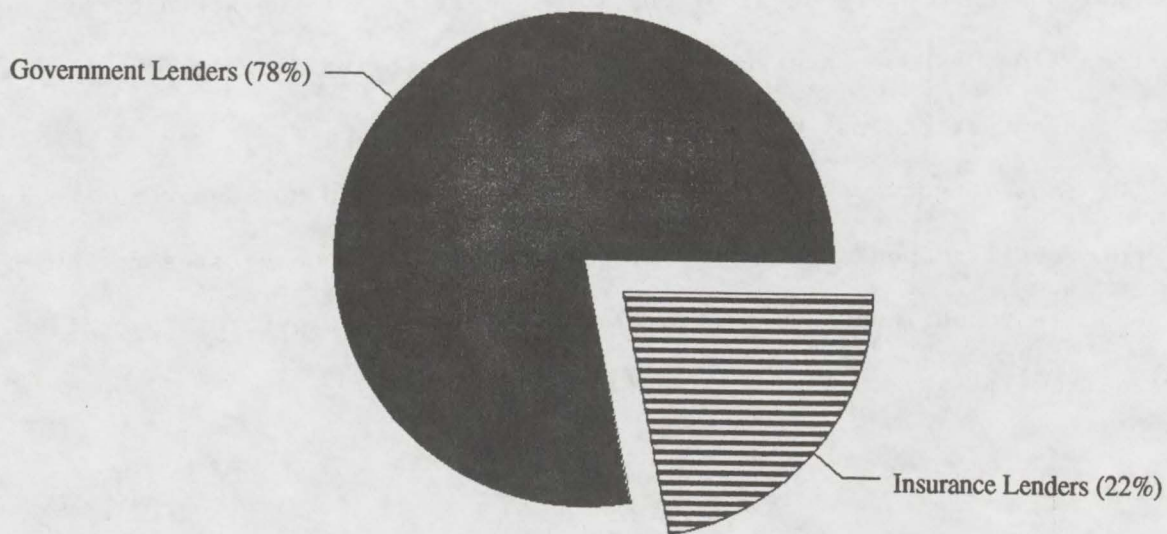
Of the 445 surveys that were mailed, 271 completed surveys were received, for an overall response rate of 60.9 percent. The response rates for buyers of government and insurance company land, 61.3 and 58.6 percent respectively, were quite similar.

## ANALYSIS OF SALES

### SUMMARY OF LAND SALES

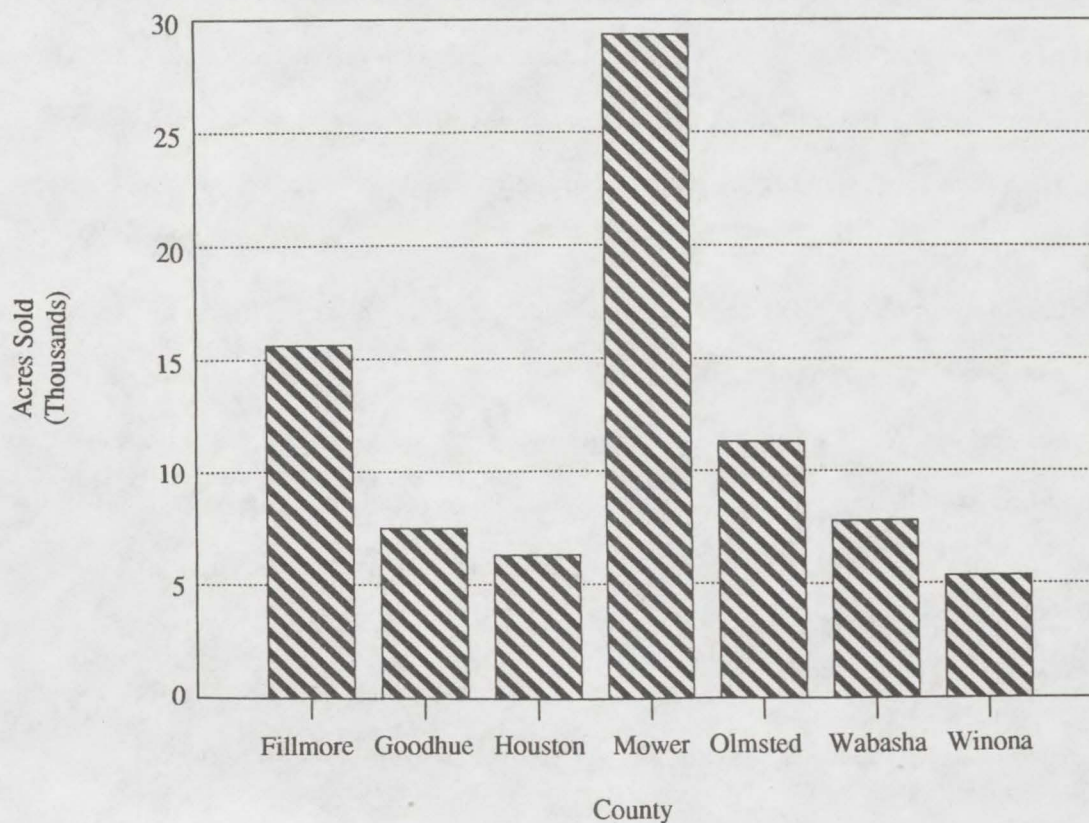
The land sales identified were not evenly distributed between government and insurance company lenders. Government lenders sold more than three times as much acreage as insurance companies in the seven counties (Figure 2). Appendix D provides the number and acreage of sales by seller. The greater rate of sales activity by government lenders is primarily a product of the Farm Credit System's policy of relatively quick resale of foreclosed farmland and has brought government lenders' holdings well below those of insurance companies in the seven counties (Figure 1).

Figure 2. ACREAGE SOLD BY GOVERNMENT AND INSURANCE COMPANY LENDERS IN THE SEVEN-COUNTY STUDY AREA, 1983 TO mid-1989 (by percentage of total)



Overall, the sales identified involved approximately 3.5 percent of the total farmland acreage in these counties.<sup>5</sup> The land sales were not, however, evenly distributed across the seven counties. The acreage sold in Mower was almost six times as great as that sold in Winona (Figure 3). The sales in Mower represented 7.6 percent of the total farmland acreage in the county, while sales in Winona represented only 1.7 percent of that county's farmland acreage. Appendix E provides the number and acreage of sales by county.

Figure 3. GOVERNMENT AND INSURANCE COMPANY LAND SALES BY COUNTY, IN ACRES 1983 TO mid-1989



<sup>5</sup> This figure has been calculated using the Bureau of the Census' estimation that there were 2,395,920 acres of farmland in the seven counties in 1987 (U.S. Bureau of the Census 1989).



In terms of average acreage and price per acre, the sales identified in this study (Table 4) are similar to those characteristic of southeastern Minnesota. The University of Minnesota's Department of Agricultural and Applied Economics publishes an annual report on the rural real estate market. According to the most recent report, the average acreage for sales in southeastern Minnesota<sup>6</sup> was 122 acres in 1983 and 165 acres in 1988. The average price per acre in these counties was \$1,470 in 1983 and \$797 in 1988, with a low of \$621 per acre reached in 1987 (Schwab and Raup 1989). One-half of the land sales identified in the present study took place in 1988 and 1989; thus, the average acreage and price per acre figures in Table 4 correspond more closely to Schwab and Raup's 1988 averages than to their 1983 numbers.

There are some noteworthy differences between the sales by government and insurance company lenders. The insurance lenders tended to sell their land in larger parcels and to receive a higher price per acre. A ratio of the price paid for a property to its estimated market value for the year in which it was sold has been calculated. This ratio suggests that the higher price paid to insurance companies cannot be explained entirely by the relative values of the government and insurance company land. However, on average, insurance companies held their land for slightly over two years before selling while government lenders held their land for only about one year. This willingness on the part of insurance companies to retain land longer probably accounts for at least some of the difference in the price per acre averages.

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<sup>6</sup> The report's figures are averaged over a broader geographic area than the seven counties investigated in this study, but they do provide some basis for comparison. The counties included in these figures for southeast Minnesota are Carver, Dakota, Dodge, Fillmore, Freeborn, Goodhue, Hennepin, Houston, Le Sueur, Meeker, McLeod, Mower, Olmsted, Ramsey, Rice, Scott, Steele, Wabasha, Waseca, Washington, Winona, and Wright.

Table 4. TYPICAL SALES OF REPOSSESSED FARMLAND, BY TYPE OF LENDER

|  | Government<br>Lenders | Insurance<br>Lenders | Average              |
|--|-----------------------|----------------------|----------------------|
| Acreage  | 147 acres             | 191 acres            | 155 acres            |
| Purchase price   | \$90,500              | \$128,200            | \$97,400             |
| Price per acre   | \$611                 | \$678                | \$628                |
| Ratio of price paid to estimated<br>market value                                 | 0.98                  | 1.15                 | 1.01                 |
| Mortgage/contract amount as a<br>percent of purchase price for<br>financed sales | 78%                   | 67%                  | 76%                  |
| Interest rate, for financed sales  | 9.2%                  | 10.2%                | 9.3%                 |
| Type of sale   | contract<br>for deed  | mortgage             | contract<br>for deed |
| Intended use   | agriculture           | agriculture          | agriculture          |
| Time elapsed between foreclosure<br>and sale                                     | 13 months             | 25 months            | 15 months            |

The other notable difference between sales by government and insurance company lenders is in the terms of the sales. Both types of lenders sold approximately 21 percent of their properties for cash.<sup>7</sup> For their remaining sales, however, government lenders tended to sell on contract for deed, while insurance companies were more likely to use mortgages. Sixty-three percent of government sales involved a contract for deed, and 68 percent of insurance sales were made with a mortgage. Government lenders also financed their sales at lower interest rates. This willingness on the part of government lenders to sell on contract at lower interest rates is consistent with the findings on

<sup>7</sup> During the 1980s, cash sales have accounted for an increasing proportion of farmland sales in Minnesota. In southeast Minnesota, cash deals increased from 25 percent of farm sales in 1983 to 41 percent in 1988 (Schwab and Raup 1989).

the time elapsed between foreclosure and resale. If the FCS was eager to reduce its land inventories, it stands to reason that it would offer easier terms than the insurance companies, which were not as anxious to dispose of repossessed land.

#### REASONS FOR PURCHASE

Survey recipients were asked about the importance of seven factors in their decision to purchase repossessed farmland. Tables 5 and 6 summarize their responses, giving the percentage of respondents who indicated that each factor was very important, somewhat important, not very important, and not at all important.

Buyers of government and insurance company land both ranked the price of the property as the most important of the factors, with over 90 percent of respondents indicating that price was either very important or somewhat important. Potential non-agricultural uses were reported as relatively unimportant by respondents. Government programs, available financing terms, land quality, potential return on investment, and farmland conservation were ranked as either very important or somewhat important by at least 50 percent of those buying land from government lenders. Potential non-agricultural uses of the property were not important to these buyers, 85 percent of whom said that such uses were either not very important or not at all important.

Table 5. REASONS FOR PURCHASE, BUYERS OF GOVERNMENT LAND

|                       | Weight Given to Factors by Respondents |                        |                        |                          |
|-----------------------|--|------------------------|------------------------|--------------------------|
|                       | Very Important (%)                     | Somewhat Important (%) | Not Very Important (%) | Not at all Important (%) |
| Government programs   | 23                                     | 27                     | 15                     | 34                       |
| Price                 | 75                                     | 19                     | 1                      | 5                        |
| Financing             | 47                                     | 28                     | 9                      | 16                       |
| Non-agricultural uses | 6                                      | 9                      | 17                     | 68                       |
| Quality of land       | 47                                     | 38                     | 9                      | 7                        |
| Return on investment  | 53                                     | 31                     | 4                      | 13                       |
| Farmland conservation | 19                                     | 43                     | 11                     | 27                       |

Table 6. REASONS FOR PURCHASE, BUYERS OF INSURANCE COMPANY LAND

|                       | Weight Given to Factors by Respondents |                        |                        |                          |
|-----------------------|--|------------------------|------------------------|--------------------------|
|                       | Very Important (%)                     | Somewhat Important (%) | Not Very Important (%) | Not at all Important (%) |
| Government programs   | 3                                      | 19                     | 14                     | 65                       |
| Price                 | 54                                     | 39                     | 0                      | 8                        |
| Financing             | 26                                     | 18                     | 13                     | 42                       |
| Non-agricultural uses | 19                                     | 16                     | 8                      | 57                       |
| Quality of land       | 24                                     | 54                     | 11                     | 11                       |
| Return on investment  | 43                                     | 30                     | 14                     | 14                       |
| Farmland conservation | 23                                     | 40                     | 20                     | 17                       |

Survey respondents who had purchased land from insurance companies were similar to those who had bought government land in their ratings of land quality, potential return on investment, and farmland conservation, with over 60 percent indicating that each of these factors was either very or somewhat important.

The most notable differences were in the importance of government programs and potential non-agricultural uses. The percentage of insurance land buyers reporting that government programs were very or somewhat important was less than one-half that of government land buyers. Potential non-agricultural



uses were rated as very or somewhat important by about 35 percent of insurance land buyers, but only 15 percent of government land buyers.

Several responses to the open-ended question that asked about additional concerns or issues addressed another factor in the purchase decision--i.e., the desire to keep the farm in the family or to help another farmer. The following responses illustrate this factor:

We purchased property to help a relative retain the property until such time as they can purchase it back.

We owned this farm for 6 months and then sold it back to the original owner for the same price as we purchased it for. The farmer was able to get financing at this time. We wanted to give him a chance to keep his farm.

The property I bought from FLB [Federal Land Bank] was previously owned by my father. He voluntarily conveyed to them providing that they sold the property to me.

I was lucky my father-in-law bought the bare land and will sell it back to me when I get financially stable.

The intent of these purchases was obviously to assist a neighbor or relative in financial trouble. Underlying the stated desire to help another farmer in financial distress was the larger concern for the future of the small family-run farm. Particularly evident in responses from Mower and Olmsted counties was a concern about the increasing dominance of large-scale farming interests that buy foreclosed property at prices neither the previous owner nor first-time buyers can afford. This concern is evident in the following comments:

Foreclosures are not in the best interest of family farms. They are most likely bought by larger farmers who simply enlarge their operations and eliminate one more family farm. This makes it very hard for young farmers to compete for credit to get into farming.

In this area (Rochester) there are so many non-farm people waiting to grab any land that is foreclosed on that the farmer has a very hard time finding financial help to compete with the non-farm investors. So the farmer is being squeezed out of the area.

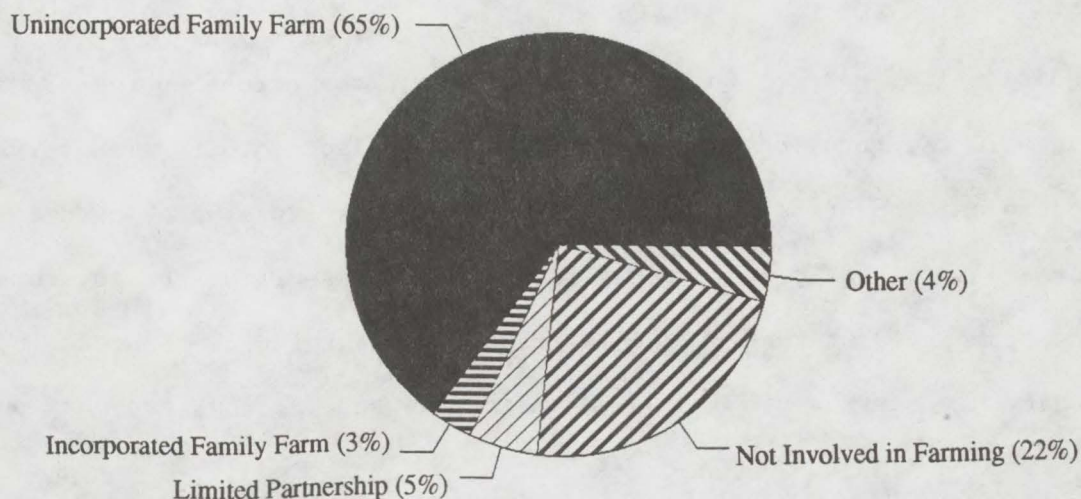
I feel that FLB [Federal Land Bank] should have adjusted payments and interest earlier with the owner. Now we have huge investment companies that have come into the area leaving fewer people living on the farms....The independent owner cares for the land better in our area.

I do not think it is fair when I see many older farmers and first-time buyers or young families being forced off the farm because of the competition from farmers who had thousands of dollars forgiven from their "notes"....The average size of the family farm has nearly tripled while many family farms are ending up in the hands of investors, corporations or both.

#### FARMING OPERATION

Survey recipients were asked to provide information about their farming operation. Sixty-five percent of respondents described their operation as having been an unincorporated family farm at the time they made their purchase, with the next largest group, 22 percent, reporting that they had not been involved in farming at the time (Figure 4). Of those individuals who were not involved in farming when they made their purchase, 72 percent reported that they were still not involved in farming. Overall, almost 90 percent of respondents indicated that their status had not changed as a result of their purchase.

Figure 4. STRUCTURE OF BUYER'S FARMING OPERATION



On average, buyers reported owning more and renting less acreage currently than at the time they purchased repossessed farmland (Table 7). Respondents who bought land from government lenders purchased an average of 150 acres, while those who bought land from insurance companies purchased an average of 191 acres. Buyers indicated at the time of this survey, however, that the increase in their total operations was less than the size of their purchase. This suggests that acreage purchased both added to the total size of the typical buyer's operation and substituted for some existing acreage. In some instances, buyers were already leasing the land that they bought, in which case the purchased land substituted entirely for rented acreage. In others, buyers sold other land after their purchase.

Table 7. AVERAGE ACREAGE CURRENTLY OWNED AND RENTED, AS REPORTED BY BUYERS

|                                     | Buyers of<br>Government Land | Buyers of<br>Insurance Company Land |
|-------------------------------------|------------------------------|-------------------------------------|
| Acreage owned currently             | 310 acres                    | 446 acres                           |
| Acreage rented currently            | 99 acres                     | 53 acres                            |
| Acreage owned prior to<br>purchase  | 164 acres                    | 228 acres                           |
| Acreage rented prior to<br>purchase | 115 acres                    | 33 acres                            |
| Change in acreage owned             | +146 acres                   | +218 acres                          |
| Change in acreage rented            | -16 acres                    | -80 acres                           |
| Change in total acreage<br>farmed   | +130 acres                   | +138 acres                          |

Additionally, part of the difference between the acreage purchased and the change in the total operation size can be attributed to resale of, and foreclosure on, the property purchased. Survey recipients were asked if they still owned all of the property that they had purchased from the government or insurance company. Of the 260 people responding to this question, 24 indicated that they currently owned only some of the acreage that they had pur-

chased and 30 said that they no longer owned any of the acreage. Approximately 77 percent of government land buyers and 90 percent of insurance land buyers reported that they still owned all of the acreage.

Among those who no longer owned all of the property that they had purchased from the lender, almost 75 percent indicated that they had sold some or all of the land. The remaining one-quarter reported a foreclosure or deed in lieu of foreclosure. The mean time between the buyer purchasing the land from the lender and the resale or deed in lieu of foreclosure was nine months. However, the median time period was two months, suggesting that the majority of these cases were planned resales.

All buyers were asked if they had intended to retain ownership of all of the acreage they purchased at the time they made the purchase. Seventy-nine percent of government land buyers and 88 percent of insurance land buyers indicated that they had intended to retain ownership indefinitely. While peoples' circumstances and intentions are certainly subject to change, this suggests that the majority of those buyers who intended to sell their property at the time they bought it have already done so.

Survey recipients who currently own or rent farm acreage were asked to provide a breakdown of all of their acreage by use. As can be seen in Table 8, the land use patterns are quite similar between buyers of government and insurance land, with both reporting that approximately 80 percent of their acreage is devoted to crops. The one notable difference is that buyers of government land participated more in the Conservation Reserve Program. This finding is consistent with the stronger weight that this group placed on government programs in making their purchase decision.

Table 8. PERCENTAGE OF ACREAGE IN VARIOUS USES, AS REPORTED BY BUYERS

|                              | Buyers of<br>Government Land<br>(%) | Buyers of<br>Insurance Company Land<br>(%) |
|------------------------------|-------------------------------------|--|
| Farmstead                    | 2                                   | 3  |
| Crops                        | 80                                  | 78   |
| Conservation Reserve Program | 5                                   | 1  |
| Non-CRP woods & wetland      | 6                                   | 13   |
| Pasture                      | 6                                   | 5  |
| Other                        | 1                                   | 0  |
| Total                        | 100                                 | 100  |

About 75 percent of respondents reported that they knew of no major changes in farm management, cultivation practices, or crop patterns since the lender had taken control of the property. Of those reporting significant changes, most described improvements in conservation measures or changes in cropping pattern that they had introduced.

On average, survey respondents reported that over 60 percent of the labor on their farmland was performed by themselves or their relatives. The distribution of labor reported by those who bought government and insurance company land was similar, with the former somewhat more likely to have hired help and the latter to have renters. Forty-eight of the 271 buyers responding to the survey reported that all of the work on their property was done by renters and/or hired help (Table 9).

Table 9. PERCENTAGE OF FARM LABOR PERFORMED BY VARIOUS PERSONS,  
AS REPORTED BY BUYERS

|                              | Buyers of<br>Government Land<br>(%) | Buyers of<br>Insurance Company Land<br>(%) |
|------------------------------|-------------------------------------|--|
| Buyer                        | 50                                  | 46   |
| Members of buyer's household | 12                                  | 12   |
| Other relatives              | 5                                   | 6  |
| Hired help                   | 10                                  | 5  |
| Renters                      | 22                                  | 28   |
| Other                        | 1                                   | 2  |
| Total                        | 100                                 | 99   |

#### BUYER'S RELATIONSHIP TO PREVIOUS OWNER

The great majority of buyers knew who had owned the farmland prior to repossession. Almost 25 percent of the respondents who bought land from government lenders reported that they had owned the land themselves before the foreclosure or deed back. This figure is approximately 37 percent for buyers of insurance company land. Another 9 percent of government land buyers and 10 percent of insurance land buyers were related to the previous owner. Moreover, while most respondents were not related to the previous owner, approximately 57 percent of government land buyers and 39 percent of insurance land buyers who were not related to the previous owner did know the person. Thus, only about 10 percent of government land buyers and 15 percent of insurance land buyers had no connection to, or knowledge of, the previous owner.

Many buyers were able to provide information relating to the impact of foreclosures and deed backs on those who went through them. Respondents who knew or were related to the former owner of the property they purchased were asked where that person is living and whether that person is farming. Of these respondents, 57 percent who had bought land from government lenders and 48 percent who had bought land from insurance lenders reported knowing that

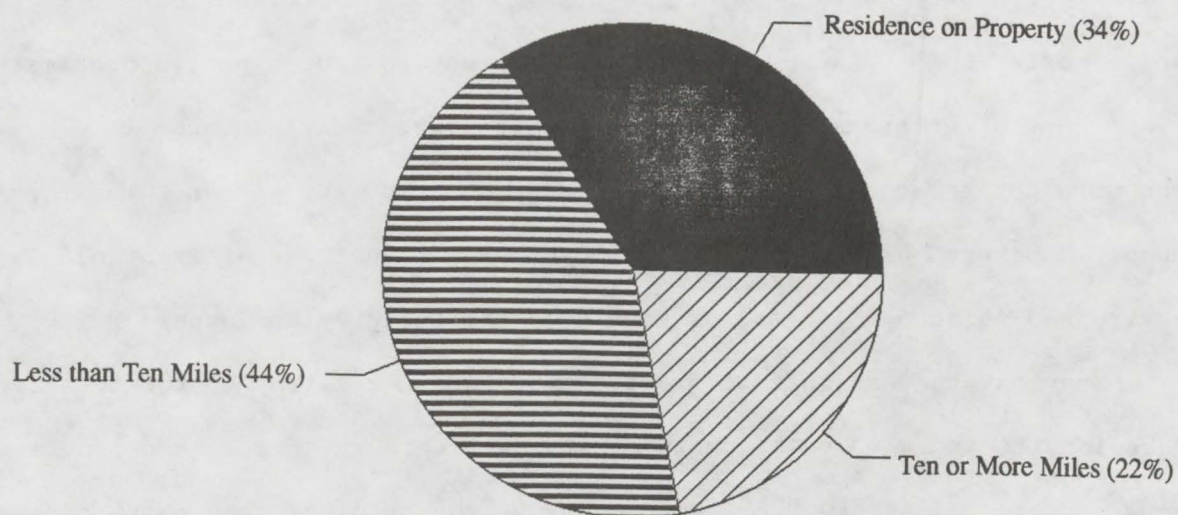


the former owner was either living on some portion of the former property or on another farm. More than 40 percent of these respondents indicated that the former owner is still engaged in farming.

#### PROXIMITY OF BUYER TO PROPERTY PURCHASED

As shown in Figure 5, approximately 78 percent of buyers live within ten miles of the property they purchased. There are residences on 54 percent of the properties sold by government lenders and 61 percent of the properties sold by insurance company lenders. Of those properties with residences, 57 percent are reportedly occupied by the buyer, 7 percent by the former owner, and 31 percent by other people. Six percent are unoccupied. These occupancy rates are essentially the same for property sold by the government and insurance companies.

Figure 5. PROXIMITY OF BUYER'S RESIDENCE TO PROPERTY PURCHASED



There are no substantial differences between buyers of government and insurance company land in terms of their proximity to the property purchased-- i.e., 78 percent of both groups live within ten miles of the property that they purchased. However, a higher percentage of buyers of insurance land reported living on the land purchased, while a larger percentage of buyers of government land reported living less than ten miles from, but not on, the property that they had purchased. This difference is due in part to the fact that a higher proportion of the properties sold by insurance companies had residences and in part to the fact that a higher proportion of the buyers of insurance land already lived on land adjacent to the purchased property.



## CONCLUSIONS

### ROLE OF MAJOR LENDERS AS LAND HOLDERS

Since 1987, the land holdings of government and insurance company lenders have declined. Two factors seem to have contributed to this decrease. First, there has been a nationwide decrease in the proportion of land transfers through foreclosure, bankruptcy, and condemnation sales and transfers. For the country as a whole, these transfers fell from 21 percent of all sales in 1988 to 15 percent of 1989 sales (USDA 1989). The second factor, reflected in the present study, is that there has been an increase in sales activity by lenders. In the seven-county study area, one-half of government and insurance company sales during the last six and one-half years occurred within the last year and one-half. If the farm economy remains stable, land prices continue to increase, and legislation governing land ownership and borrower rights is not changed, it is likely that the role of lender institutions as land holders will continue to diminish.

### LOCAL VERSUS "OUTSIDE" BUYER

It is generally agreed that, in today's farm economy, the buyers of agricultural land are primarily farmers who already have operations in the area. For the sales identified in the study, the predominant buyer was local, either living on the farm property or within ten miles, and already had a farm operation. Almost 90 percent of buyers knew who had owned the land before it was repossessed, and many were buying back land that had been in their family.

## FARM SIZE AND ACREAGE

While the resale of foreclosed farmland by government and insurance company lenders has contributed to the trend toward fewer farms and increased farm size, the data do not support the conclusion that these sales are driving the trend. The average acreage for sales in the seven-county study area is within the averages for sales in southeastern Minnesota.

## TENURE AFTER SALE

More than 75 percent of survey respondents reported that they still own all of the property they purchased, and over 80 percent indicated that they had intended to keep all of the acreage indefinitely at the time they bought it. On average, over 60 percent of farm labor is done by the buyers and their relatives; but there was definitely a group of investor buyers, many of whom were local. Almost 18 percent of buyers reported relying exclusively on renters and hired help to farm their land.

## PLANNED USE

Over 90 percent of buyers indicated on their Certificate of Real Estate that the intended use for the property they were buying was agricultural. Information provided by survey respondents suggests that this has in fact been the case, with most of the acreage being used for crop cultivation. This pattern of use is similar to national trends. About 87 percent of the farmland recently sold across the country by all sellers is expected to remain in agriculture over the next five years (USDA 1989).

## DIFFERENCES BETWEEN GOVERNMENT AND INSURANCE COMPANY LENDERS

The significant differences between government and insurance company sales were primarily in the timing and terms of sale. While these differences undoubtedly did have short-term impacts on local land markets, they are unlikely to have long-term effects on land tenure, farming patterns, and rural communities.

Land sales by insurance lenders commanded a higher price per acre and exhibited a higher ratio of selling price to estimated market value than government lender sales. The insurance lenders tended to sell larger parcels than government lenders and to hold their land about two years, one year longer than government lenders. While both types of lenders sold approximately 21 percent of their properties for cash, government lenders sold 63 percent of their properties on contract for deed, in contrast to the 68 percent of insurance sales that involved mortgages. Moreover, government lenders financed their sales at lower interest rates, despite the fact that contract sales are usually characterized by higher interest rates than are warranty deed sales. Government lenders may have been more willing to offer better terms because of their desire to reduce land inventories.

The average sale by insurance company lenders did involve substantially more acreage than the average sale by a government lender, or than the Schwab and Raup data would suggest is typical of southeastern Minnesota. However, the level of sales activity by insurance company lenders to date has been relatively low, and thus cannot be said to have increased average farm size significantly.

Interestingly, while buyers of insurance company land were more concerned than buyers of government land with the potential non-agricultural uses of the land they were buying, their interest has not been manifested in visible

land use changes. The survey revealed that they were farming their land in essentially the same way as were buyers of government land and that they were more likely to have retained ownership of all of the acreage that they purchased.

#### RECOMMENDATIONS FOR FURTHER RESEARCH

1. Extend the study methodology to southwestern Minnesota or another region which is similar in farm operation and crop base, and has experienced farmland foreclosure by institutional lenders. This would serve as a basis for assessing the impact of resale of repossessed farmland across a wider geography and economy.
2. Create maps of the lender sales to define visually the spatial allocation and pattern of sales transactions.

## REFERENCES

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Minnesota Department of Agriculture. Family Farm Security Division. 1989. Summary of Reports of Corporations, Limited Partnerships, Lending Institutions, and Insurance Companies Holding an Interest in Minnesota Farmland and Non-U.S. Citizen Landholders for Calendar Year 1988. St. Paul: Minnesota Department of Agriculture.

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MAP OF SEVEN-COUNTY STUDY AREA

The map displays the following counties and regions:

- Top Left:** Cook, Cass, Crow Wing, Lake, and other counties.
- Top Right:** Cook, Cass, Crow Wing, Lake, and other counties.
- Center:** Cook, Cass, Crow Wing, Lake, and other counties.
- Bottom Left:** Cook, Cass, Crow Wing, Lake, and other counties.
- Bottom Right:** Cook, Cass, Crow Wing, Lake, and other counties.

The map is a black and white line drawing showing the geographical layout of the study area. Dashed lines indicate the boundaries of the study area within the larger state of Minnesota.





APPENDIX B

CERTIFICATE OF REAL ESTATE VALUE



# Certificate of Real Estate Value

Buyer's Last Name, First, Middle Initial

Present Address

Daytime Phone Number

Seller's Last Name, First, Middle Initial

Address

Daytime Phone Number

Street Address or Rural Route of Property Purchased

City or Township

County

Legal Description of Property Purchased (Fill in lot number, block number and plat name, or attach 3 copies of the legal description)

## Type of Acquisition (check all boxes which apply)

☐ You and seller are relatives or related businesses

☐ Property is a gift or inheritance

☐ You received property in a trade

☐ Buyer is a religious or charitable organization

☐ Buyer is a unit of government

☐ You condemned or foreclosed on the property

☐ Your name added to or co-owner's name removed from deed (not a sale)

☐ You purchased partial interest only

☐ Date purchased agreement signed is over two years ago (Fill in year \_\_\_\_\_)

*If you checked any box above, skip the rest of this form, sign it and fill out schedule B*

## Type of Property Transferred (check all boxes which apply)

☐ Land Only

☐ Land and Buildings

☐ Construction of a new building completed after January 1 of year of sale

## Planned Use of Property (check one box)

☐ Residential (single, duplex, triplex)

☐ Agricultural

☐ Apartment (Number of units \_\_\_\_\_)

☐ Commercial-Industrial (Type of business \_\_\_\_\_)

☐ Cabin or Recreational

☐ Other Use (describe below)

## Financial Arrangements (instructions are on back of yellow copy)

1 Total Purchase Price

2 Total Amount of Personal Property (from schedule A on back of this sheet)

3 Date Seller Signed Purchase Agreement

4 Down Payment

5 Points or Prepaid Interest Paid by Seller

6 Points or Prepaid Interest Paid by Buyer

## Describe each mortgage and contract for deed used to purchase this property

| Is this a Contract or Assumed Mortgage? |                          | Mortgage or Contract for Deed Amount at Purchase | Monthly Payment for Principal and Interest | Interest Rate (In Effect Now) | Total Number of Payments | Date of Any Lump Sum (Balloon) Payments |
|---|--------------------------|--|--|-------------------------------|--------------------------|---|
|   | Yes                      | No   |  |                               |                          |   |
| 7                                       | <input type="checkbox"/> | <input type="checkbox"/>                         | _____                                      | _____                         | _____                    | _____                                   |
| 8                                       | <input type="checkbox"/> | <input type="checkbox"/>                         | _____                                      | _____                         | _____                    | _____                                   |
| 9                                       | <input type="checkbox"/> | <input type="checkbox"/>                         | _____                                      | _____                         | _____                    | _____                                   |

10 If a mortgage or contract for deed is not a variable market rate but the terms of payment are scheduled to change on a fixed date, fill in its line number from above, the month and year of the change, and what it will change to (or attach 3 copies of payment schedule).

*Fill out schedule B on the back of this sheet to determine the amount of your deed tax*

I declare that the information filled in on this form is true, correct and complete to the best of my knowledge and belief.

Print or type name of person signing this form

Signature

Phone Number

Date

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|--------------------------------|--|
| Department of Revenue Use Only |  |
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APPENDIX C

SAMPLE COVER LETTER AND SURVEY





UNIVERSITY OF MINNESOTA  
TWIN CITIES

Center for Urban and Regional Affairs  
330 Hubert Humphrey Center  
301 19th Avenue South  
Minneapolis, Minnesota 55455  
(612) 625-1551

(Date)

(Buyer's Name)  
(Buyer's Address)

Dear (Buyer's Name):

The Center for Urban and Regional Affairs (CURA) at the University of Minnesota would like your help in completing a survey of people who have purchased land from either government or insurance company lenders. CURA has a long history of work on rural issues in Minnesota.

From (name of county inserted here) public records, we have learned that you purchased property (parcel #s of property purchased inserted here) from (name of seller inserted here) during (year of purchase inserted here). Your participation in this survey will help public policy makers and project researchers understand land sales by lending institutions. This survey is part of broader research on farmland tenure.

Even if you no longer own this property, we would like you to complete the survey. Your participation is, of course, completely voluntary. A stamped pre-addressed envelope is enclosed for your convenience in returning the survey.

Your survey will be kept completely confidential and used only in combination with other responses for statistical purposes. The survey has an identification number that will allow us to check your name off the mailing list when your survey is returned. After data entry your survey will be destroyed.

You may receive a summary of the results by writing "copy of results requested" and your name and address on the back of the return envelope. Please do not put this information on the questionnaire itself. Thank you for your assistance.

Sincerely,

Thomas L. Anding  
Associate Director





(COUNTY NAME INSERTED HERE) LAND SALES SURVEY

NOTE: Please circle the numbers corresponding to your answers and provide requested information in the appropriate blanks. It is possible that some questions may not be applicable to you. In such cases, there are directions indicating what you should do.

Questions about the property you purchased from (name of seller inserted here) refer to the parcels identified in the letter accompanying this survey.

OPERATION

Q1 Prior to your purchase of land from (name of seller), how much property did you

- 1 own? \_\_\_\_\_
- 2 rent? \_\_\_\_\_

(If either of your answers is "none," please place a zero in the appropriate blank(s).)

Q2 Currently, how many acres do you

- 1 own? \_\_\_\_\_
- 2 rent? \_\_\_\_\_

(If either of your answers is "none," please place a zero in the appropriate blank(s).)

Q3 Which of the following best described your farming operation immediately prior to your purchase of the property? (Circle one)

- 1 Unincorporated family farm
- 2 Incorporated family farm
- 3 Limited partnership
- 4 Private corporation of non-relatives
- 5 Public corporation
- 6 Not involved in farming
- 7 Other

Q4 Did you change the status of your operation as a result of this purchase? (Circle one)

- 1 Yes, please specify changed status
- 2 No

OWNERSHIP PROFILE

Q5 Do you know who owned the property you purchased from (name of seller) prior to the foreclosure or deed in lieu of foreclosure? (Circle one)

- 1 Yes
- 2 No-----Skip to Q9

Q6 Which of the following describe your relationship to the previous owner(s) of the property? (If there was more than one owner, please circle all that apply.)

- 1 Self
- 2 Relative
- 3 Not related

Q7 Where is the former owner of the property? (Circle one)

- 1 Living on some portion of his/her former property
- 2 Living on another farm
- 3 Living in a town or city
- 4 Do not know
- 5 Other

Q8 What is the former owner's present occupation? (Circle one)

- 1 Still farming
- 2 Not farming
- 3 Other

Q9 Is there a residence on the property that you purchased from (name of seller)? (Circle one)

- 1 Yes
- 2 No-----Skip to Q11

Q10 If you answered yes to Q9, who lives in the residence?

- 1 Self
- 2 Previous owner of the property
- 3 Other person(s)
- 4 Residence is unoccupied

Q11 Which of the following best describes how near you live to the property? (Circle one)

- |                      |                       |
|----------------------|-----------------------|
| 1 Live on it         | 4 Less than 50 miles  |
| 2 Less than 10 miles | 5 Less than 100 miles |
| 3 Less than 20 miles | 6 More than 100 miles |



FARM MANAGEMENT

Q12 In your opinion are there

- 1 more
- 2 fewer
- 3 about the same number of

individuals farming in (name of county) as there were 5 years ago?  
(Circle one)

Q13 Consider the following factors and indicate whether they were 1) very important, 2) somewhat important, 3) not very important, or 4) not at all important in your decision to purchase the property. (Place the appropriate number in the blank after each factor.)

- 1 Government programs available \_\_\_\_\_
- 2 Price \_\_\_\_\_
- 3 Financing terms available \_\_\_\_\_
- 4 Potential non-agricultural uses \_\_\_\_\_
- 5 Quality of land \_\_\_\_\_
- 6 Potential return on investment \_\_\_\_\_
- 7 Farmland conservation \_\_\_\_\_

Q14 At the time you purchased this property, what was your primary intended use for it? (Circle one)

- 1 Agricultural
- 2 Residential
- 3 Other, please specify \_\_\_\_\_

Q15 To the best of your knowledge, have there been any major changes in farm management, cultivation practices, or crop patterns on the property since the foreclosure? (Circle one)

- 1 Yes
- 2 No

Q16 If you answered yes to Q15, please briefly describe these changes.  
(Attach additional page if necessary.)

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Q17 Considering all of the acreage that you own or rent now, approximately how many acres are devoted to the following uses?

|                                      |       |          |
|--------------------------------------|-------|----------|
| 1 Residential/Farmstead              | _____ | ac       |
| 2 Crops                              | _____ | ac       |
| 3 Conservation Reserve Program (CRP) | _____ | ac       |
| 4 Non-CRP Woods & Wetland            | _____ | ac       |
| 5 Pasture                            | _____ | ac       |
| 6 Other, _____                       | _____ | ac       |
| Total Acreage                        |       | _____ ac |

Q18 Considering all of the acreage that you own or rent now, approximately what percentage of farm work is done by each of the following? (If none of your acreage is in agricultural use, please skip to Q19.)

|                             |       |       |
|-----------------------------|-------|-------|
| 1 Yourself                  | _____ | %     |
| 2 Members of your household | _____ | %     |
| 3 Other relatives           | _____ | %     |
| 4 Hired help                | _____ | %     |
| 5 Renter(s)                 | _____ | %     |
| 6 Other,                    | _____ | %     |
|                             |       | 100 % |

#### PROPERTY STATUS

Q19 Do you currently own

- 1 all of the property-----Skip to Q22
- 2 some of the property
- 3 none of the property

that you purchased from (name of seller)? (Circle one)

Q20 If you circled (2) or (3) in response to Q19, how long, to the nearest month, after you purchased the property was the deed transferred?

\_\_\_\_\_ Years \_\_\_\_\_ Months

Q21 If you circled (2) or (3) in response to Q19, what was the reason for the transfer of the property? (Circle one)

- 1 Sale
- 2 Foreclosure/Deed in lieu of foreclosure
- 3 Other, please specify \_\_\_\_\_



Q22 When you purchased the property, did you intend to retain ownership of all the acreage indefinitely? (Circle one)

- 1 Yes
- 2 No

Q23 Are there additional issues or concerns that you have about the impact of foreclosure on farming in your area? (Attach additional page if necessary.)

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Thank you for your time and effort in completing this survey.



APPENDIX D

SUMMARY OF LAND SALES BY SELLER





# SUMMARY OF LAND SALES BY SELLER

| Seller                              | Number of Sales | Acreage Sold |
|-------------------------------------|-----------------|--------------|
| <u>Government Lenders</u>           |                 |              |
| Farmers Home Administration         | 9               | 1,258        |
| Federal Land Bank                   | 381             | 56,469       |
| Minnesota Department of Agriculture | 7               | 1,315        |
| Production Credit Association       | 46              | 6,065        |
|                                     |                 |              |
| Sub-total                           | 443             | 65,107       |
| <u>Insurance Lenders</u>            |                 |              |
| Connecticut General                 | 7               | 2,451        |
| John Hancock                        | 18              | 1,418        |
| Metropolitan Life                   | 29              | 4,049        |
| Mutual of New York                  | 5               | 472          |
| Prudential                          | 11              | 3,256        |
| Travelers                           | 26              | 6,642        |
|                                     |                 |              |
| Sub-total                           | 96              | 18,288       |
| Total                               | 539             | 83,395       |



APPENDIX E

SUMMARY OF LAND SALES BY COUNTY



# SUMMARY OF LAND SALES BY COUNTY

| County   | Number of Sales | Acreage Sold |
|----------|-----------------|--------------|
| Fillmore | 95              | 15,631       |
| Goodhue  | 46              | 7,548        |
| Houston  | 33              | 6,341        |
| Mower    | 182             | 29,305       |
| Olmsted  | 88              | 11,347       |
| Wabasha  | 49              | 7,831        |
| Winona   | 46              | 5,392        |
| Total    | 539             | 83,395       |



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